# Enterprise Agility:
How to transcend disruption in the financial services industry


Planview™

The market is changing. Every day, organizations must compete to stay relevant amidst a sea of competitors. Financial services organizations are no different. Agility is more important than ever as new technologies in the form of fintech and insurtech threaten the market share of leading financial institutions. While the race to transform and utilize new and innovative technologies is well underway, some are struggling to evolve fast enough.

At the same time, the financial services customer has changed. A technologically savvy millennial generation – the target demographic for most businesses today – has grown up with digital experiences like shopping, entertainment, and socializing, that have set high expectations for the products and services companies provide. These customers anticipate a wide variety of digital services that include mobility, personalization, on-demand access, and innovation at unprecedented levels.

The need to deliver faster, better, and more innovative products and services leave many financial services organizations displaced and disrupted. Unless established banking and insurance organizations embrace new ways of working and incorporate agility throughout their operations and culture, they risk irrelevance in the mind of their customers, playing second fiddle to more progressive and nimbler fintech, insurtech, digital "neo-banks," and other financial innovators.

Established financial organizations are feeling the heat. While they have the benefit of experience on their side, many are still struggling to overcome the bureaucratic culture, organizational siloes, and hierarchical management structures that arose as they were dealing with critical challenges of the last paradigm: Cybersecurity, expanding regulation, and an increasingly complex infrastructure.

It's now imperative that these organizations overcome the legacy business models and technologies that lack the flexibility needed to deal with modern challenges. Lean and Agile approaches were developed in response to this new, more volatile world. And they're exactly what's required in this era of disruption.

**In this eBook, we'll discuss how financial services organizations are now embracing a shift to a Lean-Agile culture and mindset to keep pace, and changing their planning and funding models to support Agile delivery, while always keeping the customer in the front of their minds.**

# Disruptive Business Models Are Trending; Financial Services Are Ground Zero

Today's banks are in fierce competition for millennials and the younger generations. But competitive threats aren't just coming from similar financial businesses. New financial technologies (fintech), services, and business models are emerging at an extraordinary pace.

Competitive challenges are surging from all sides – at a time when the entire global financial paradigm appears poised for a major shift. These are the times great companies are made or great companies die. To survive and thrive, financial institutions need to be nimble and remain relevant through the development of new apps and mobile technologies that attract and retain this target audience.

## The rise of fintech

Fintech is fundamentally altering the way businesses grow, manage their finances and meet the needs of their customers. It's redesigning the industry with a focus on winning over the next generation of customers which, having come of age in the Internet era, have very different expectations than the previous generation's banks were originally designed to serve. Some fintech innovations include:

- Customer-friendly access to web-based finance and money management tools.
- Peer-to-peer financing.
- Demographic-based products.
- Real-time financial decisions using cognitive artificial intelligence.
- White label banking.
- The use of telematics to calculate insurance premiums.

But it's not just new tools, products, and services aimed at the market. There are also entirely new entrants focused on attracting customers away from their current banking institutions, such as:

**Neo-banks:** These branchless organizations were conceived as digital, mobile-only platforms that reimagine everything from the front-end user experience to back-end processes. They typically operate in partnership with traditional banks. Variant Market Research estimates a neo-bank annual growth rate of 45 percent from 2016 through 2025, resulting in yearly revenues of $356M USD.

**Challenger banks:** Where neo-banks typically rely on traditional banks, challengers are fully-licensed. They differentiate themselves through transparency of fees, flexible pricing models, and leveraging analytics to design new, data-driven banking experiences. As far back as 2015, KPMG reported that in the UK, total profits for challenger banks rose nearly £200 million while the biggest five banks in the region lost over £5 billion.

**Big Tech:** Tech giants may pose the biggest single threat to the financial services industry. According to Bain & Company, more than half (54 percent) of the public would trust at least one technology company more than they would trust a bank. The younger the respondent, the higher the trust in Big Tech.

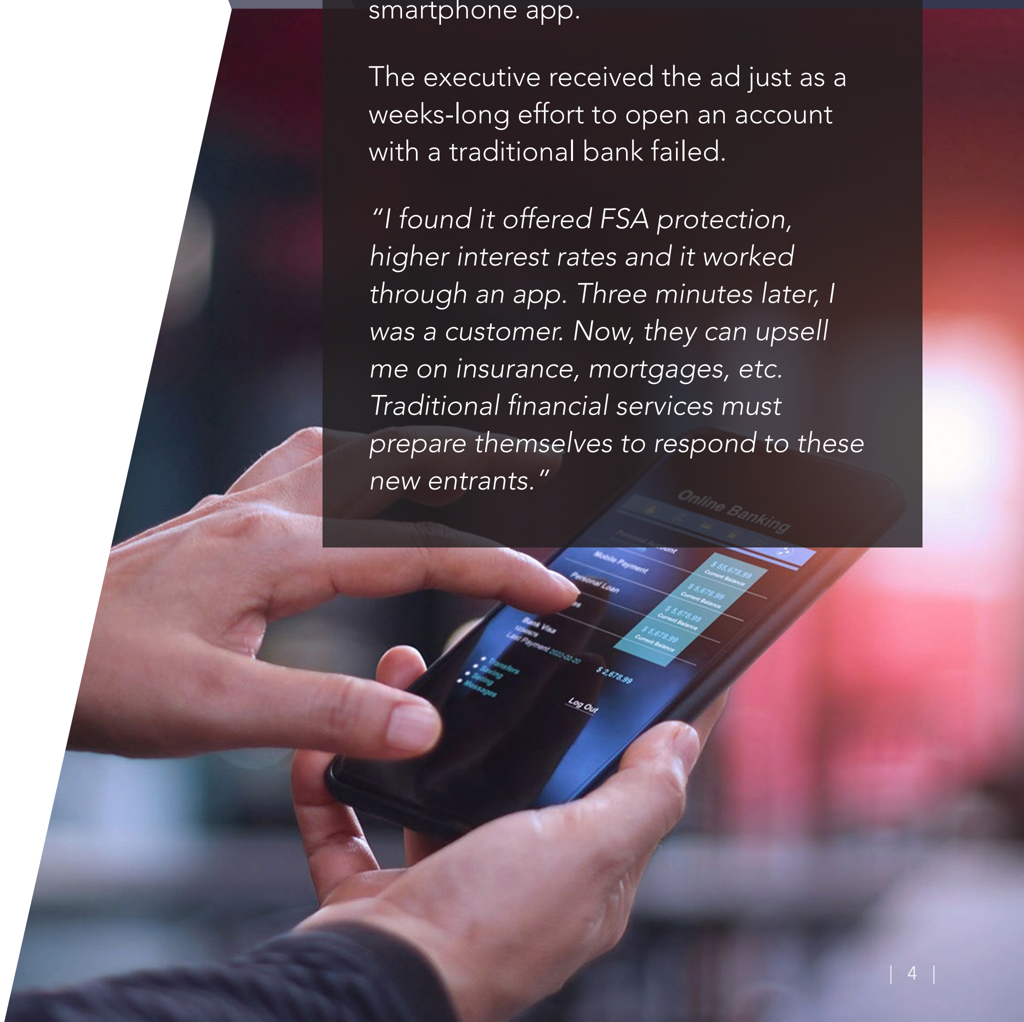
Financial services organizations should prepare for tech giants like Apple, Amazon, Facebook, and Google to encroach further into their territory. These companies' innovative tech engines run on all cylinders, have profound insight into target audiences' needs and desires, and already have relationships with hundreds of millions of customers.

## The real threat of mobile-only banks

A UK banking executive recently received an ad for a new, mobile-only banking company that allows prospective customers to open accounts in minutes with no in-person interview, connects to digital wallets, and provides 24/7 access to accounts via its smartphone app.

The executive received the ad just as a weeks-long effort to open an account with a traditional bank failed.

*"I found it offered FSA protection, higher interest rates and it worked through an app. Three minutes later, I was a customer. Now, they can upsell me on insurance, mortgages, etc. Traditional financial services must prepare themselves to respond to these new entrants."*



# The Challenges of Change in Financial Services

No company can escape disruption, but some deal with it more effectively than others. Financial services companies face an uphill battle if they fail to overcome the common impediments that inhibit innovation:

**Outdated business models**
Many financial companies remain tied to business practices that helped them thrive in the past, but now stifle them. For example, detailed multi-year business plans that were once effective, now lack the flexibility to deal with modern market and client behavior.

**Traditional management structure**
Many organizations that once flourished under command-and-control hierarchical structures continue to tighten control, add bureaucracy, and restrain autonomy, especially when crises occur. That's the opposite of what should happen. Just like how money policy is relaxed during a financial crisis, so should bureaucratic control be relaxed during an organizational crisis so that solutions can emerge organically.

**Legacy infrastructure**
The financial services industry still uses legacy technologies such as mainframe systems and software because they provide the best, most secure option for certain business functions. But legacy technologies can also stand in the way of innovation if they're not adequately worked into a plan.

**Increasing cybercrime**
Today's cybersecurity environment is frightening. Global reputations built over decades can be destroyed with one destructive incident, and this can lead to reluctance to implement changes within an organization.

**Increasing regulation**
In the wake of the '08 financial crisis, a new regulatory landscape arose. Today, the banking industry is reportedly on firmer ground, but residual compliance requirements around security, data privacy, etc., have had a negative impact on innovation.

**Transcending the legacy aspects of the business is crucial**
Due to the challenges above, many financial organizations remain mired in prudential risk management and governance. But complex governance, controls and hierarchy do not banish uncertainty, eliminate risk, or build a strong foundational base. In fact, they inhibit performance, personalization, and the ability to scale, while increasing costs and time to market.

According to Gartner, 80 percent of heritage financial firms will go out of business, become commoditized, or exist only formally by 2030. Those that transcend the traditional aspects of their businesses have the best chance at survival.

# The Counterpunch: How Banks Are Responding to Disruption

Financial organizations should look at disruption as an opportunity – a continuous process of discovery, invention, and reinvention. And many do. In fact, most banks aren't just standing idly by. New products and services designed to meet the needs of an expanding and changing customer base are rapidly developing. The organizations that will be with us tomorrow are those that today are:

- **Designing API platforms:** Moving towards an open-platform, modern technology architecture.
- **Going digital and going mobile:** Launching their own digital banks as a mechanism for defending existing turf and entering new markets.
- **Forging new partnerships:** Maintaining relevance by teaming up with fintech and Big Tech.
- **Enabling neo-banks:** Partnering to provide access to payment systems, money storage, etc.

> ***Millennials go mobile:*** Forty-seven percent of millennials use mobile banking, most often to schedule money transfers between people or accounts, and check transaction histories. But nearly half will abandon mobile banking activities if too much is asked of them or the process takes too long.
>
> – Jumio and Javelin Strategy & Research, 2018

- **Providing Banking-as-a-Service:** Turning banking enablement into a product.
- **Launching competitive fee structures:** Leveraging a digital infrastructure to build out more competitive pricing models.
- **Removing transactional barriers:** Eliminating the three-day delay between initiating a transaction and it posting to the account.
- **Diversifying:** Branching out into a broader platform of diverse services.
- **Embracing Agile:** Turning to Agile as the basis for a digital transformation.

Banks are responding to disruption with a four-pronged business approach: Adopting Agile development frameworks, changing planning and funding models to embrace Lean Portfolio Management approaches, strengthening efforts to digitize and automate processes, and incorporating Artificial Intelligence and machine learning. Together, these four initiatives provide the foundation to not only position organizations to deal with disruption, but to become disruptors themselves.

# Agile Is the Right Response to a Volatile Market Environment

According to Deloitte's Global Human Capital Trends report, becoming more Agile is the most important business trend over the past two years. In fact, 94 percent of business leaders surveyed said that "agility and collaboration" are critical to their company's success. Yet only six percent said they were "highly Agile today," and nearly 20 percent said they were "not Agile" at all.

Agile methodologies are instrumental in the success of both established and recently formed financial organizations. It's a safe bet that virtually all disruptive newcomers are building their products and services using Agile practices and principles. That's because Agile practices create an environment that nurtures flexibility and innovation. Such an environment is characterized by:

- A focus on business outcomes over structures.
- An organic approach to driving results over mechanistic, fixed processes.
- The elevation of teams over hierarchical structures and job titles.
- Smaller, self-managing and multi-disciplinary teams that are connected to business outcomes and have accountability for end-to-end products or services (internal or external).
- A set of values and practices instilled across the organization that help to ensure innovation and a focus on value delivered.

## Seven features of a transformed bank

Most banks are adopting Agile development practices and principles alongside continued efforts to digitize and automate processes. McKinsey estimates that 75 to 80 percent of transactional operations like payment processing can be automated, and as much as 40 percent of strategic activities like financial planning and analysis could be as well.

This is important. It's through the adoption of automation that financial services companies will fully leverage AI and machine learning. It will allow employees to focus on product development and revenue-driving products and services. And it will help organizations remain competitive against financial upstarts that have no legacy business practices to overcome.

The following are seven characteristics of a financial institution that has embraced Agile and is transforming itself into a disruptor that will lead the market into the future:

1. Financial services are re-bundled; often customized and combined into one product that assists customers with every financial aspect of their lives.

2. Big data and predictive analytics are leveraged to enable real-time decisions.

3. Services are diversified across a broader platform.

4. Automation and AI have taken over most repetitive operational roles.

5. Employee roles are shifting to customer-focused, product development and services.

6. With siloes eliminated, branches, call centers, and back office operations act as one cohesive entity.

7. Customer transactions are happening through digital channels in real time.

# Adopt an Agile Mindset and Culture to Embrace Agile

For financial service organizations to successfully embrace disruption through Agile adoption, they need to evolve their mindset first. Having an Agile mindset that focuses on continuous learning and improvement, on outcomes over output, and on its people over profit, is critical in changing financial service and banking organizational culture. Here are more details on how this is accomplished:

## Focus on outcomes rather than outputs

Financial institutions still tend to evaluate success by measuring project execution and on-time delivery. These are outdated portfolio management mechanisms that don't give a true picture of what's actually achieved. What's the benefit to the organization if a team flawlessly executes a project and delivers on time and under budget, if what's delivered isn't relevant to the market?

Organizations today must measure success on how the work delivered aligns to and supports overarching goals and objectives. How does the deliverable impact the bottom line? In what tangible ways have our efforts moved the entire business forward?

An iterative approach to delivery provides quick feedback that helps ensure businesses are on track to deliver anticipated outcomes. It acts as an early indicator when estimated outcomes are not lining up to meet expectations and allows businesses to pivot and adjust the plan to deliver value.

## Evolving the mindset

Changing the way success is evaluated is an important part of the transition to Agile, but it's just one aspect of the shift in mindset – away from traditional practices, processes, and rules, and towards innovation, adaptability, and growth – that needs to occur across the organization.

The desired mindset is commonly characterized by a focus on the delivery of value to customers, and small, self-sufficient teams that deliver in short cycles and are empowered with autonomous work environments. Many companies struggle with this shift because they believe it can be accomplished without first reshaping the corporate culture. In virtually all cases, it cannot.

## An Agile mindset is the product of an Agile culture

Creating an Agile culture is the first step in achieving an Agile mindset. Following are three tenets of an Agile culture:

- People and progress over profits: Organizations trying to adopt Lean-Agile Principles while still operating within the profit-first, control-focused culture on which they were built, will find it very difficult to succeed.

- A leadership commitment to Lean-Agile practices: The Agile world is horizontal – made up of self-organizing, self-sufficient teams, guided by servant leaders that aim to empower rather than control.

- Planning and funding cycles focused on entire value streams: Plans and budgets are continuously aligned with organizational goals, and teams are incentivized to innovate rather than deliver agreed-upon deliverables.

Transforming a culture requires time, consistent effort, and accountability, but doing so forms the basis for a new mindset focused on delivering innovative customer value. For more information on creating an Agile culture, download the eBook: *Five Lean-Agile Culture Shifts Needed to Achieve and Sustain Organizational Agility*.

# Shift to Lean Portfolio Management to Truly Evolve

Traditional portfolio management methods involve a detailed, upfront planning process meant to deliver predictable results at the end of a specified timeframe. This is typically 12-18 months. Stakeholders often meet on an annual basis to discuss potential opportunities and make decisions about what projects will move forward and when, how they'll be funded, etc. Executives base funding decisions on the estimated value that will be delivered at the end of the cycle.

But decisions made on an annual basis can be hard to reverse. In fact, with this approach it's difficult for organizations to even realize that the decisions made several months ago need to be modified. Without an iterative approach, they have a very limited ability to feel the market, much less the flexibility to deliver what it needs or wants in a timely manner. Traditional portfolio management was not designed to keep pace with the current rate of change and does little to minimize the possibility of failure.

At the other end of the spectrum, Agile delivery is incremental. It provides frequent checks and balances that alert organizations to problems and allows them to address issues, alter plans, or change direction entirely, prior to any detrimental impact. An incremental approach to planning, development, and funding continuously ensures teams are building the right thing at the right time, which lowers risk substantially.

## An iterative approach to planning and funding

Lean Portfolio Management provides financial institutions with a continuous, iterative approach to funding models and planning cycles. Governance around business units or value streams provides the freedom to make decisions on planning, funding, and how value is produced or achieved. This way, value streams and their respective teams gain more autonomy and self-organize to deliver the highest-value work first, which further helps to minimize risk.

## How is this done in real life?

Over the last decade, RBS (Royal Bank of Scotland) undertook an Agile transformation from traditional portfolio management to Lean Portfolio Management. While numerous factors undoubtedly contributed to the company's revitalization, it's not uncommon to see organizations that embrace Agile methodologies reinvent themselves in dramatic and impactful ways.

> *"We had to move from a traditional operating model based on traditional methodologies to thinking more about incremental, iterative value delivery where we could pivot quickly to meet the changing needs of customers."*
>
> – Stephen Marjot, head of Change Center of Excellence at RBS

## Joint efforts, learning curves, and evangelists

After several years of executing Agile projects and leveraging Scrum and other Agile delivery principles on a pilot-like basis, RBS decided to extend Agile across the business layer. "We decided to transform our operating models, organizational structure, roles, processes, and tools to support the transformation," says Steve Marjot, Head of Change Centre of Excellence at RBS. "The business and technology sides came together and made that happen."

RBS soon discovered that an Agile transformation involves both education and maturity. It wasn't just a matter of making a change and assigning accountability. Practice and perseverance were required to affect a fundamental change in the culture.

Evangelizing the transformation to the broader organization was also important. RBS depended largely on leaders – Agile evangelists who accepted accountability, Agile coaches that helped implement changes, and executive leadership that was firmly committed to removing impediments.

## Quantifying the value of customer delivery

Today, RBS builds quantifiable results into each Lean business case. A mechanism for identifying and measuring value is included down to the feature level. The value stream is held accountable for the outcomes they wanted to achieve and the funds allocated.

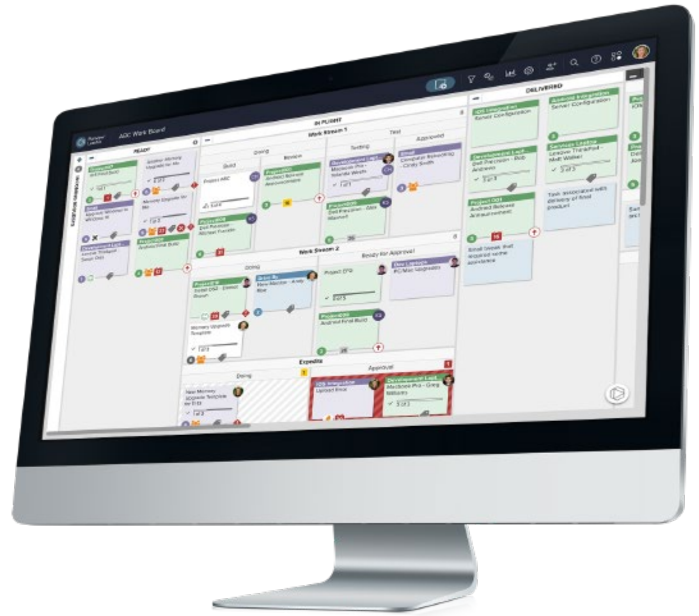
"Every user story includes the value to be derived from it," says Marjot. "Executives typically look at revenue driven or NPS scores. Ultimately, we have to achieve business outcomes at the enterprise level."

Today, the company has gone from 90 percent traditional portfolio management and 10 percent Agile to about 70 percent traditional and 30 percent Agile. While the RBS Agile transformation continues to be a work in progress, the UK's 7th largest financial institution has experienced a lot of success, overcome many obstacles, and learned a lot along the way.

To learn more about the RBS Agile transformation, check out the on-demand RBS customer keynote.

## Seize the opportunity

There's no question that disruption is in full swing across most industries today. And financial services are among those most in need of making a shift. This should be viewed as an opportunity to improve both the health of the organization and the products and services provided to customers by replacing outdated business practices and management structures with contemporary ways of planning, funding, and operating. Financial services organizations need to embrace enterprise agility with open arms to survive and thrive in the market of tomorrow.



## About Planview's Lean and Agile Delivery

Planview's Lean and Agile Delivery Solution provides a scalable enterprise-level Lean Portfolio Management, value stream planning, and Agile delivery platform that enables planning and value delivery from the strategic portfolio level to the Agile team. With transparency into how portfolio initiatives and value streams are progressing across the business and key insight into changes needed across financials, capacity, and delivery, the entire organization can more fluidly shift to deliver better business outcomes.

For more information on how Lean-Agile works for banking organizations managing an Agile portfolio alongside a traditional portfolio using Planview®, watch the **Planview Lean and Agile Delivery Solution Demo**.

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